



LEBANON THIS WEEK

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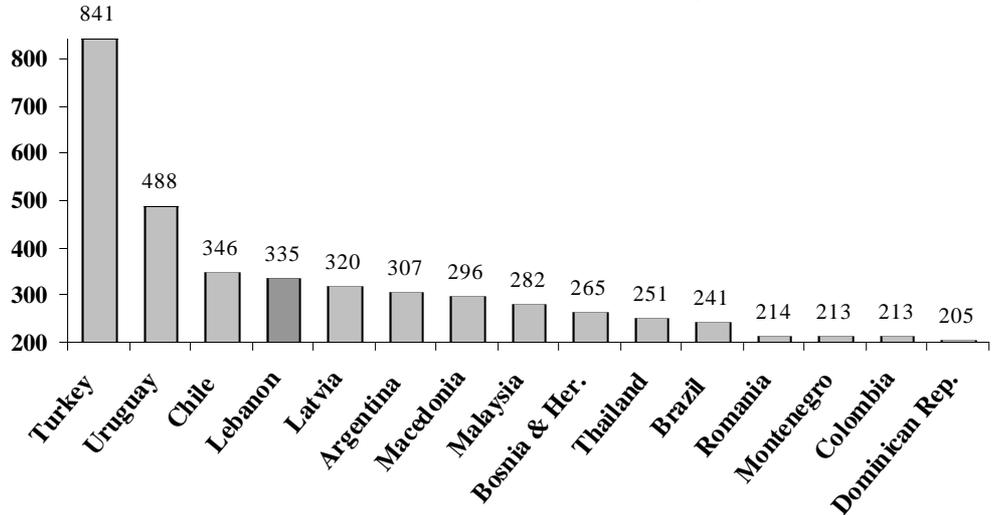
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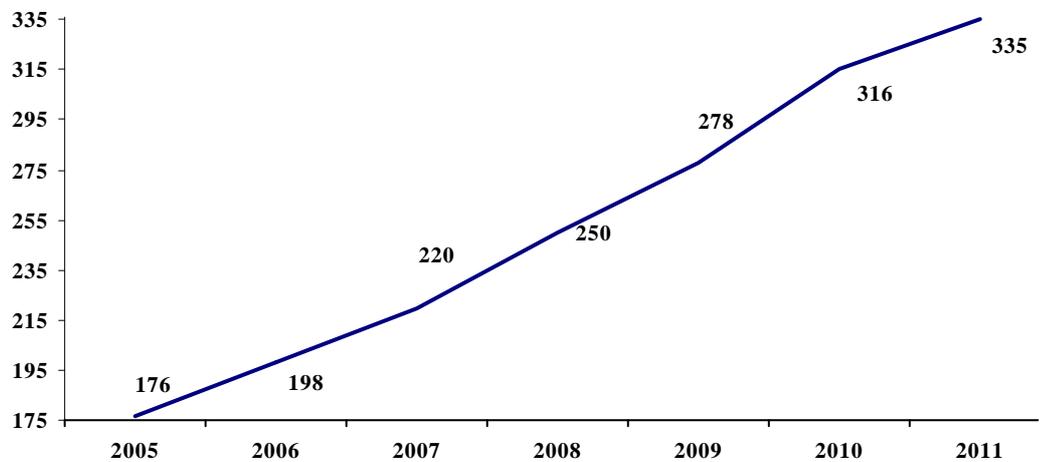
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Charts of the Week

Borrowers' Penetration Rate in Select Upper-Middle Income Countries in 2011
 (number of borrowers from commercial banks per 1000 adults)



Borrowers' Penetration Rate in Lebanon
 (number of borrowers from commercial banks per 1000 adults)



Source: International Monetary Fund, Byblos Bank

Quote to Note

"The quality of national accounts in Lebanon, both in terms of reliability and timeliness, remains weak."

The Institute of International Finance, on the weak statistical base of the Lebanese economy

Number of the Week

6.7%: Average annual growth rate of real per capita GDP in Lebanon during the last five years, relative to a 3.1% average for rated sovereigns in the Middle East & Africa, according to Fitch Ratings

Economic Indicators

\$m (unless otherwise mentioned)	2010	Jun 11	2011	Apr 12	May 12	Jun 12	% Change*
Exports	4,256	411	4,276	319	355	345	(16.06)
Imports	17,956	1,571	20,170	1,548	1,645	1,713	9.04
Trade Balance	(13,700)	(1,160)	(15,894)	(1,229)	(1,290)	(1,368)	17.93
Balance of Payments	3,326	564	(1,996)	(543)	(82)	(23)	(104.08)
Checks Cleared in LBP	13,519	1,156	14,251	1,154	1,196	1,283	10.99
Checks Cleared in FC	53,925	4,716	57,852	4,286	4,746	4,766	1.06
Total Checks Cleared	67,444	5,872	72,103	5,440	5,942	6,049	3.01
Budget Deficit/Surplus	(2,894)	350	(2,342)	(422)	(50)	8.1	(97.67)
Primary Balance	1,231	459	1,662	15	300	281	(38.75)
Airport Passengers	5,512,435	517,860	5,596,034	518,723	438,570	545,379	5.31

\$bn (unless otherwise mentioned)	Dec 2010	Jun 11	Mar 12	Apr 12	May 12	Jun 12	% Change*
BdL FX Reserves	28.60	28.33	30.99	31.76	29.57	29.26	3.28
<i>In months of Imports</i>	<i>19.46</i>	<i>18.03</i>	<i>17.99</i>	<i>20.52</i>	<i>17.98</i>	<i>17.08</i>	<i>(5.26)</i>
Public Debt	52.59	52.52	54.08	55.04	55.12	55.25	5.19
Net Public Debt	45.01	45.60	46.91	47.18	47.17	47.10	3.30
Bank Assets	128.93	135.43	144.73	144.71	144.86	145.90	7.73
Bank Deposits (Private Sector)	107.20	111.48	118.22	118.75	118.90	119.94	7.59
Bank Loans to Private Sector	34.93	37.26	41.00	41.67	41.89	41.70	11.93
Money Supply M2	39.40	36.61	40.04	40.46	41.74	41.00	11.99
Money Supply M3	92.15	94.23	98.94	99.77	99.96	100.36	6.51
LBP Lending Rate (%)	7.91	7.59	7.16	7.49	7.34	7.44	(15b.p.)
LBP Deposit Rate (%)	5.68	5.62	5.46	5.42	5.49	5.45	(17b.p.)
USD Lending Rate (%)	6.74	6.98	7.06	7.10	7.12	7.15	17b.p.
USD Deposit Rate (%)	2.80	2.81	2.83	2.84	2.83	2.78	(3b.p.)
%* Change in CPI**	6.19	6.16	4.40	6.03	6.36	4.72	(144b.p.)

* Year-on-Year; ** Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	12.61	(1.64)	145,855	12.59%
Solidere "B"	12.54	(1.03)	22,100	8.14%
Byblos Common	1.50	0.67	82,205	5.38%
Byblos Pref. 08	102.30	0.00	0	2.04%
Byblos Pref. 09	103.10	0.00	0	2.06%
BLOM GDR	7.80	1.30	2,000	5.76%
BLOM Listed	7.40	0.00	98,280	15.89%
Audi GDR	5.52	(3.66)	192,080	5.60%
Audi Listed	5.50	(0.90)	335,900	19.19%
HOLCIM	15.51	0.98	4	3.02%

Source: Beirut Stock Exchange (BSE); *Week-on-week

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
June 2013	8.625	104.25	2.87
Apr. 2014	7.375	105.30	3.86
Jan. 2015	5.875	105.75	3.29
Apr. 2015	10.00	114.25	4.16
Jan. 2016	8.500	112.13	4.54
Mar. 2017	9.000	116.00	4.99
Nov. 2018	5.150	99.50	5.25
Apr. 2021	8.250	115.00	5.99
Nov. 2026	6.600	102.25	6.36

Source: Byblos Bank Capital Markets

	Sep 24 - 28	Sep 17 - 21	% Change	Sep 2012	Sep 2011	% Change
Total Shares Traded	1,036,489	410,511	152.49	2,108,718	3,302,725	(36.15)
Total Value Traded	\$6,811,404	\$2,659,662	156.10	\$16,363,983	\$28,432,176	(42.45)
Market Capitalization	\$10.02bn	\$10.07bn	(0.54)	\$10.02bn	\$10.65bn	(5.92)

Source: Beirut Stock Exchange (BSE)



Recent government decisions threaten fiscal sustainability, real GDP growth forecast reduced to 1.8% for 2012

Barclays Capital revised downward its projection for real GDP growth in Lebanon to 1.8% in 2012, constituting the second consecutive downward revision after it reduced in June its growth forecast to 3.1% from a projection of 3.6% at the start of the year. It attributed the change to expectations that the ongoing broad-based slowdown in the Lebanese economy will continue and possibly worsen over the coming months. It said the deterioration of security conditions since May, the kidnapping of Arab and foreign nationals, threats to GCC nationals, and spillovers from the Syrian crisis have dealt a severe blow to the economy over the short- to medium-term, with possible longer ramifications. It said that the tourism sector has been the most affected by local and regional instability, with the number of tourist arrivals, especially Arab tourists, continuing to decline after GCC governments banned their nationals from traveling to Lebanon. It added that activity in the construction and real estate sector continues to slow, while increased political volatility and uncertainty further slowed down consumption and investment activities.

In parallel, Barclays indicated that policy deadlock and electoral politics are threatening Lebanon's fiscal sustainability. It considered that the biggest looming risk to economic and public finance stability is a policy-induced increase in fiscal risks, rather than an externally-generated shock or spillovers from the Syrian crisis. It said that the recent adjustment to the salary scale of public-sector employees will cost the Treasury between \$1bn and \$1.5bn per year, which is equivalent to almost half of Lebanon's fiscal deficit in 2011. It added that the 2013 draft budget includes a 25% increase in expenditures and proposes new tax measures to cover the increase in spending in order to maintain the deficit at about \$3.5bn. It noted that the draft budget intends to raise the tax on deposit interest from 5% to 7% and introduces a capital gains tax on real estate transactions, among many other measures. It added that the government is currently studying additional tax measures to finance the recent adjustment to the salary scale.

Barclays warned that the government's insistence on implementing these tax-and-spend measures despite the economic slowdown and higher inflationary pressures, and without considering alternative options such as cutting spending, would lead to a rapid deterioration in the country's macroeconomic and fiscal outlook. It noted that the 2013 draft budget, with its proposed increases in current spending, was prepared in the absence of any clear medium-term economic and fiscal policy framework that outlines the country's growth strategy and reform plans. It noted that policymakers are once again pursuing an ad hoc approach to increase spending, but this time in a much more unfavorable environment and in the absence of any fiscal policy in more than six years.

Further, Barclays expressed concerns that the planned increases in spending and taxation are taking place amid a deteriorating fiscal performance and slowing growth. It warned that the country's debt dynamics could rapidly deteriorate and would reverse the fiscal consolidation gains that were achieved in previous years, given the prevailing political uncertainties, expectations of a prolonged period of low growth, and reduced capital inflows. It forecast Lebanon's fiscal deficit to exceed 7.5% of GDP in 2012 relative to 5.4% of GDP in 2011, and for the primary surplus to fall significantly to 2.1% of GDP this year compared to 4.3% of GDP in 2011. It noted that this will lead to a debt-to-GDP ratio of 135.8% of GDP in 2012, almost unchanged from 136.2% of GDP in 2011 and compared to an average debt reduction of almost 6.7 percentage points of GDP per year over the past three years.

Key Macroeconomic Indicators				
	2010	2011	2012F	2013F
Activity				
Real GDP (% yoy)	7.0	1.5	1.8	2.5
CPI (% average)	4.0	5.0	5.4	4.3
External Sector				
Current account balance (\$bn)	(4.2)	(5.8)	(6.3)	(6.2)
Current account balance (% of GDP)	(10.8)	(14.4)	(15.2)	(14.1)
Net FDI (\$bn)	3.8	3.4	2.3	2.5
Gross external debt (% of GDP)	161.0	158.5	160.3	164.4
Foreign currency public debt (% of GDP)	53.3	51.0	57.9	61.8
Foreign reserves (\$bn)	31.5	33.7	34.6	33.3
Public Sector				
Fiscal balance (% of GDP)	(7.5)	(5.8)	(7.5)	(8.0)
Primary balance (including grants) (% of GDP)	3.2	4.1	1.2	0.5
Gross public debt (% of GDP)	136.6	136.2	135.8	135.5

Source: Barclays Capital, September 2012



Lebanon ranks 120th globally, 9th in the Arab region in Government Effectiveness

The World Bank's annual World Governance Indicators for 2011 show that Lebanon's rankings regressed on five out of six governance indicators included in the survey and improved in one other; while its score regressed on four indicators and improved on two others. The results reflect a weak level of governance in Lebanon. The indicators cover 214 countries and territories and are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes.

Lebanon ranked in 120th place worldwide and in 9th place among 20 Arab countries in terms of Government Effectiveness. The indicator measures the competence of the bureaucracy and the quality of public service delivery. Globally, Lebanon came ahead of Belize and Tonga and ranked behind Lesotho and the Maldives, while it ranked ahead of Saudi Arabia and Syria and came behind Kuwait and Morocco in the region. Lebanon's rank regressed by one spot globally and by one spot regionally year-on-year. In parallel, 56.6% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Also, Lebanon ranked 199th worldwide and 15th among Arab countries in terms of Political Stability. The indicator measures the likelihood of instability, domestic violence and terrorism during the covered year. Globally, Lebanon ranked ahead of Nepal and Ethiopia and came behind Iran and Bangladesh, while it was more stable than Syria and Iraq and less stable than Egypt and Algeria among Arab countries. Lebanon's rank regressed by four spots globally and by one spot regionally from the preceding year. Further, 93.4% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

In addition, Lebanon ranked 128th globally and second regionally on the Voice & Accountability indicator. This category measures a country's citizens' ability to participate in selecting their government as well as freedom of expression, freedom of association, and a free media. Globally, Lebanon came ahead of Malaysia and Thailand and behind Guatemala and Tunisia, while it ranked ahead of Kuwait and Morocco and came only behind Tunisia regionally. Lebanon's rank regressed by three spots globally and by one spot regionally year-on-year. Also, 64% of countries and territories worldwide had a better score than Lebanon on this dimension of governance. Further, Lebanon ranked 99th globally and eighth among Arab countries in terms of Regulatory Quality, the measure of market-friendly policies and laws that permit and promote private sector development. Globally, it ranked ahead of Serbia and Saudi Arabia and came behind Kuwait and Cape Verde, while it ranked ahead of Saudi Arabia and Morocco and behind Jordan and Kuwait in the region. Lebanon's rank regressed by one spot worldwide but improved by one spot among Arab countries in 2011. The results show that 46.7% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Lebanon ranked 150th globally and 13th regionally on the Rule of Law category, an indicator of the extent that citizens have confidence in and abide by the rules of society, and the likelihood of crime and violence. Globally, it came ahead of Nicaragua and behind Indonesia, while it ranked ahead of Djibouti and came behind the West Bank & Gaza and Syria regionally. Lebanon's rank regressed by two places worldwide and remained unchanged among Arab countries from the preceding year. In parallel, 70.1% of countries and territories in the world had a better score than Lebanon on this dimension of governance. Finally, Lebanon ranked 171st globally and 15th among Arab countries on the Control of Corruption indicator, the measure of a country's level of corruption. Globally, it came ahead of Iran and Kenya and behind the Central African Republic and Uganda, while it ranked ahead of Syria and Yemen and behind Egypt and the West Bank & Gaza in the region. Lebanon's rank regressed by six spots worldwide and remained unchanged among Arab countries from the preceding year. Also, 80.7% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Government Effectiveness Rankings & Scores 2011

Country	Score	Arab Rank	Global Rank
UAE	0.95	1	48
Qatar	0.83	2	52
Bahrain	0.65	3	62
Oman	0.43	4	73
Jordan	0.05	5	91
Tunisia	0.02	6	92
Kuwait	-0.04	7	100
Morocco	-0.22	8	111
Lebanon	-0.33	9	120
Saudi Arabia	-0.43	10	126
Syria	-0.44	11	129
Egypt	-0.60	12	144
West Bank/Gaza	-0.64	13	148
Algeria	-0.66	14	150
Mauritania	-0.90	15	175
Djibouti	-0.96	16	178
Yemen	-1.14	17	187
Iraq	-1.15	18	190
Sudan	-1.39	19	197
Libya	-1.47	20	202

Source: World Bank, Byblos Research

Lebanon's Rankings and Scores on Governance Indicators for 2011

Indicator	Global Rank	Change in Rank	Arab Rank	Lebanon Score	Change in Score	Arab Average Score
Voice & Accountability	128	▼	4	-0.41	▼	-1.09
Political Stability	199	▼	18	-1.55	▲	-0.79
Government Effectiveness	120	▲	11	-0.33	▲	-0.37
Regulatory Quality	99	▼	10	0.02	▼	-0.30
Rule of Law	150	▼	15	-0.68	▼	-0.36
Control of Corruption	171	▼	17	-0.91	▼	-0.40

Source: World Bank, Byblos Research



Occupancy at Beirut hotels at 63%, room yields up 7% in first seven months of 2012

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 63% in the first seven months of 2012 compared to 56% in the same period last year. The occupancy rate at Beirut hotels was the ninth lowest among 21 markets in the region, while it was the eighth lowest in the same period last year. Occupancy rates at Beirut hotels were 60% in January, 64% in February, 74% in March, 66% in April, 67% in May, 58% in June and 53% in July 2012 compared to 44% in January, 42% in February, 53% in March, 61% in April, 58% in May, 62% in June and 67% in July 2011.

The survey said the average rate per room at Beirut hotels was \$205 in the first seven months of 2012, ranking the capital's hotels as the ninth most expensive in the region. The average rate per room at Beirut hotels decreased by 6.3% year-on-year, and posted the 14th lowest decrease among all markets in the region. The average rate per room in Beirut came above the regional average of \$180.8, which rose by 0.7% from \$179.5 in the same period last year.

Further, revenues per available room (RevPAR) were \$130 in Beirut in the first seven months of 2012, up from \$122 in the same period last year, and ranking it in 11th place in the region. Beirut's RevPAR increased by 6.6% year-on-year, compared to an increase of 6.8% across the region, and posted the 10th highest increase in the region. Beirut posted RevPARs of \$139 in January, \$131 in February, \$149 in March, \$139 in April, \$134 in May, \$119 in June and \$103 in July 2012 compared to \$99 in January, \$84 in February, \$107 in March, \$103 in April, \$117 in May and \$142 in June and \$184 in July 2011. Dubai-Beach posted the highest average room rate in the region at \$351 and the highest RevPAR at \$278, while Dubai-Apartments posted the highest occupancy rate at 88% in the first seven months of 2012.

Exploitation of potential offshore gas reserves to be slow but steady

Citigroup expected the progress in Lebanon's efforts to exploit its potential offshore gas reserves to be slow but steady. It said that the current Cabinet has struggled to make progress in this area due to political infighting and ongoing instability, and despite a rare national consensus on the need to reduce the country's reliance on oil and gas imports. It noted that an oil and gas law was ratified in 2011, laying the legal groundwork for the hydrocarbon industry. It expected the board of the Petroleum Administration to be appointed in the coming weeks, which would enable Lebanon to hold its first round of bidding for exploration blocks. It said that the disputed maritime border with Israel will further complicate the industry's outlook. But it pointed out that Lebanon can proceed with the development of its hydrocarbon industry within the agreed Exclusive Economic Zone (EEZ), until maritime border issues are settled by arbitration at the United Nations. It noted that the Ministry of Energy announced that seismic surveys of half of Lebanon's EEZ, excluding areas that are subject of territorial dispute between Lebanon and Israel, suggest the presence of up to 12 trillion cubic feet of gas.

In parallel, Citigroup considered that the production of gas will eventually lead Lebanon to energy independence, which would transform the country's fiscal and economic dynamics. It said that, over the past 5 years, Lebanon spent over \$21bn on fuel imports and transferred \$5.7bn to Electricité du Liban (EdL) to compensate for losses in electricity generation. It added that the Treasury transfers to EdL are equivalent to between 4% of GDP and 5% of GDP annually. It noted that regular blackouts force private businesses to resort to costly diesel generators and act as a major deterrent to investment in the country. Further, it pointed out that bottlenecks in electricity supply also include lack of investment in generation capacity, inefficient production and distribution, and failures in the regulatory and tariff structure, among others. It noted that Lebanon's access to cheap locally-produced gas will significantly reduce production costs, but it will not resolve all of the sector's problems, which still require the implementation of energy reform policies that will be subject to political uncertainties.

Hotel Performance in First Seven Months of 2012

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai Apartments	88	107	9.0
Makkah	86	200	20.5
Dubai City	83	158	11.1
Dubai Overall	82	198	10.3
Jeddah	81	190	18.6
Dubai Beach	79	278	5.9
Amman	77	115	36.4
Abu Dhabi	76	144	(12.0)
Madina	74	129	35.6
Muscat	68	139	0.1
Hurghada	65	20	1.5
Sharm Shaikh	64	30	19.5
Beirut	63	130	6.6
Al Ain	62	88	(9.0)
Riyadh	61	137	(2.6)
Doha	60	158	(7.7)
Cairo Pyramids	57	71	3.6
Kuwait	51	141	(7.1)
Cairo Overall	41	43	(4.6)
Manama	38	82	39.1
Cairo City	38	38	(6.7)

Source: Ernst & Young, Byblos Research

Lebanon is third largest recipient of IMF technical assistance in the region

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon accounted for 17% of its overall allocation of technical assistance delivery during fiscal year 2012 that ended in June 2012. Lebanon was the third biggest recipient of such assistance, ranking behind Jordan and Sudan, and coming ahead of Afghanistan, the West Bank & Gaza, Egypt and Iraq. Lebanon received 31 person weeks (PWs), or 155 days worth of assistance in 2012, down from 32 person weeks in 2011 and compared to 51.5 person weeks in 2010. Jordan received 46.5 PWs and Sudan 43.5 PWs in FY2012.

Lebanon received 23.5 PWs, or 117.5 days in revenue administration support, accounting for 75.8% of the total assistance it received and for 38.2% of the region's total for this category. METAC assisted the Lebanese tax authorities with their plans to integrate the Value Added Tax (VAT) and income tax departments. It prepared detailed plans outlining arrangements for the transition of each department and proposed future staffing levels for the integrated unit. Support in FY2013 will include further assistance in establishing an integrated tax administration, strengthening compliance management and risk-based audit, and supporting customs administration. Also, Lebanon received 3.5 PWs, or 17.5 days in macroeconomic statistical support, accounting for 11.3% of the total assistance it received and for 12.3% of overall macroeconomic assistance in the region in FY2012. METAC conducted a review of the preparatory steps towards the compilation of a first full International Investment Position (IIP) statement for Lebanon. METAC recommended the implementation of an FDI survey as soon as possible to improve the overall quality of the IIP and its consistency with the current account trend of the balance of payments. Lebanon also received 2 PWs, or 10 days in public financial management assistance, which accounted for 6.5% of assistance it received and for 6.8% of overall such support in the region. METAC conducted a brief review of recent developments in Public Financial Management (PFM), and outlined a strategy and draft action plan of PFM reforms. Further, Lebanon received 2 PW, or 10 days in Debt Management & Money Markets Development, equivalent to 6.5% of its total assistance and to 6.7% of overall support in the region. Finally, Lebanon did not receive any banking supervision assistance in FY2012. Support in FY2013 will include helping the Lebanese authorities develop a new manual for the supervision of non-bank financial institutions, providing recommendations to Lebanon to enhance its stress testing techniques and methodologies, and organizing workshops on stress testing and early warning indicators. Also, METAC intends to organize a seminar on financial consumer protection and workshops on liquidity risk management.

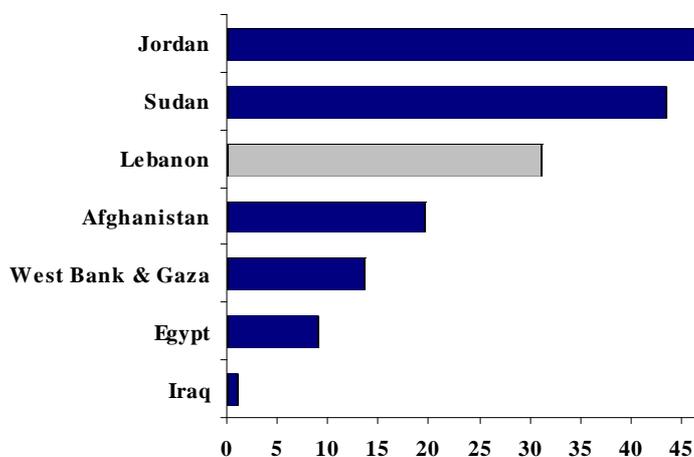
The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Egypt, Iraq, Jordan, Lebanon, Libya, Sudan, Syria, the West Bank & Gaza and Yemen. The center's mandate is to provide capacity building assistance, facilitate the reform process in member countries, and support the region's integration in the world economy. METAC is funded through grants from Lebanon and participating countries, as well from the IMF, the European Union, the European Investment Bank, France, Japan and Kuwait.

Widening balance-of-payments deficit does not pose short-term risks

Business Monitor International expected that risks to Lebanon's balance-of-payments stability would remain high over the coming quarters, given the size of the country's current account deficit. It said that the ongoing rise in global commodity prices is having the most significant impact on the trade account. It warned from the ongoing slowdown in capital inflows to Lebanon, and added that Lebanon's large current account deficit has historically been covered by financial inflows, a trend that has reversed in recent months. It noted that Lebanon's financial account deficit reached \$1.3bn in the first half of 2012 relative to deficits of \$786m in the first half of 2011 and \$44m in the same period of 2010. It cautioned that the deterioration in Lebanon's balance-of-payments position can accelerate more quickly than originally anticipated.

However, BMI indicated that Lebanon is less at risk of experiencing a balance-of-payments crisis over the next 15 months compared to net-importing countries in the Middle East and North Africa region. It said that the country's stock of foreign exchange reserves is estimated at \$29.2bn as at end-June 2012, which is equivalent to 12 months of import cover and which continues to provide a sufficient cushion against potential negative shocks. It added the Central Bank has a stock of gold reserves that is currently valued at \$14.5bn in the event of balance-of-payments instability. Further, it noted that the depositor base in Lebanon's banking sector has proven significantly stable over recent years even in the face of extreme political turmoil, therefore constituting a key source of stability in the context of a potentially prolonged period of regional turmoil.

Technical Assistance by Person Weeks in FY2012



Sources: International Monetary Fund, METAC, Byblos Research

Stock market activity down 24% to \$339m in first nine months of 2012

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 44.5 million shares in the first nine months of 2012, constituting a decrease of 30.3% from the same period last year; while aggregate turnover amounted to \$339.2m, down 23.8% from a turnover of \$445.4m in the first nine months of 2011. Market capitalization decreased by 2.6% from end-2011 and by 5.9% from end-September 2011 to \$10bn, of which 75.4% was in banking stocks, 20.7% in real estate stocks, 3.3% in industrial stocks, 0.3% in fund stocks, and 0.2% in trading stocks. The market liquidity ratio was 3.4%, down from 4.2% in the same period last year. Bank stocks accounted for 76.3% of aggregate trading volume in the first nine months of the year, followed by real estate stocks with 17.9%, trading stocks with 5.5%, and industrial stocks with 0.2%. In terms of value of shares traded, banking stocks accounted for 66.5% of aggregate value, followed by real estate stocks with 31.4%, trading stocks with 1.7% and industrial stocks with 0.3%. The average daily traded volume for the period was 239,178 shares for an average daily value of \$1.8m. The figures reflect decreases of 31.8% in volume and 25.5% in value year-on-year.

Economic activity contracts in July 2012

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 247.8 points in July 2012 compared to 261 in June and 257.1 in July 2011. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 5.1% month-on-month and contracted by 3.6% year-on-year. The indicator averaged 258 in the 12-months ending July 2012 compared to 258.8 in the 12-months ending June 2012 and to 252.1 in the 12-months ending July 2011. As a result, the average coincident indicator regressed by 0.3% month-on-month and increased by 2.3% year-on-year, which reflects economic contraction in real terms. The indicator posted its third consecutive decline since May and its fourth decline in 2012 after it dropped by 5.9% in January, 3.1% in May and 1.6% in June. The indicator reached an all-time high of 273.7 points in April 2012 after peaking at 269.9 in April 2011. In parallel, the indicator improved eight times, regressed 11 times, and was unchanged one time in the month of July since 1993. The indicator averaged 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

Banque Libano-Française posts \$31m in first half profits

Banque Libano-Française sal, one of Lebanon's top 10 banks, posted unaudited consolidated net profits of \$31.2m in the first half of 2012, unchanged from the same period last year. Net operating income rose by 3.6% to \$97.3m, with net interest income increasing by 23.2% to \$80.5m and net fee & commission receipts growing by 4.4% to \$20m year-on-year. Non-interest income accounted for 32% of total income, up from 31.1% in the first half of 2011; with net fees & commissions accounting for 52.7% of non-interest earnings. Further, the bank's interest margin was 1.65% in the first half of 2012 relative to 1.62% in the same period of 2011; while its net spread increased marginally to 1.59% from 1.58%. Total operating expenditures increased by 1.5% to \$58.5m, with staff expenses rising by 1% to \$34.2m. Also, the bank's return on average assets reached 0.6% in June 2012 on an annualized basis, relative to 0.7% a year earlier; while its return on average equity was 7.6% relative to 7.8% in June 2011. The bank's cost-to-income ratio dropped to 49.4% in the first half relative to 56.4% in the same period last year.

In parallel, total assets reached \$10.2bn at end-June 2012, unchanged from end-2011 and rising by 11% from end-June 2011; while loans & advances to customers increased by 1.5% from end-2011 and by 11.7% year-on-year to \$3.4bn. Also, customer deposits totaled \$8.7bn at end-June, constituting an increase of 2% from end-2011 and a growth of 15.7% from a year earlier. The loans-to-deposits ratio declined to 39.1% at end-June 2012 from 39.6% a year earlier.

Fitch affirms Allianz ratings at 'AA-', outlook stable

Fitch Ratings affirmed Germany-based insurance group Allianz SE's Insurer Financial Strength (IFS) rating and long-term Issuer Default Rating (IDR) at 'AA-', with a 'stable' outlook. It also affirmed the IFS ratings of the main Allianz subsidiaries at 'AA'. The group fully owns Allianz-SNA, one of Lebanon's largest insurance firms. The agency attributed its decision to the group's strong technical profitability, strong consolidated group capital position, broad diversification by geography and by product, and solid business position in its key markets. It added that the group's ratings benefit from an investment mix of sound credit quality. It noted that the group's supportive factors for the ratings are partly offset by the currently reduced technical profitability in the non-life business segment in the U.S. and Germany and by the challenging medium-term outlook for some of Allianz's life market. Fitch expected Allianz's sound underwriting profitability from the non-life business to offset earnings from life insurance and investments that are likely to be under pressure in the rest of 2012 and during 2013. The group is active in both the non-life and life segments as well as in asset management. Allianz SNA generated total premiums of \$100m in 2011 in the Lebanese market, including \$49.8m in life and \$50.2m in non-life premiums. It ranked in second and sixth place in the Lebanese insurance market in terms of life and non-life premiums, respectively, in 2011.

BBAC's net profits down 3% to \$22m in first half of 2012

The Bank of Beirut and the Arab Countries (BBAC) sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$21.9m in the first half of 2012, down 2.6% from the same period last year. Net operating income grew by 5.3% year-on-year to \$56.8m, with net interest income increasing by 23% to \$40m and net fees & commissions receipts rising by 9.3% to \$8.6m year-on-year. Non-interest income accounted for 27.2% of total income, down from 33.1% in the first half of 2011; with net fees & commissions accounting for 58.1% of non-interest earnings. Further, the bank's interest margin was 1.85% in the first half of 2012 relative to 1.59% in same period of 2011, and its net spread rose to 1.79% from 1.54% in the same period last year. Total operating expenditures increased by 11.2% to \$31m, with staff expenses growing by 14% to \$16.5m. Also, the bank's return on average assets reached 0.99% in June 2012 on an annualized basis, relative to 1.07% a year earlier; while its return on average equity was 12.12% on an annualized basis relative to 13.73% in June 2011. The cost-to-income ratio decreased to 56.6% in the first half relative to 57.5% in the same period last year.

In parallel, total assets reached \$4.6bn at end-June 2012, constituting a 5.4% rise from end-2011 and a 6.7% increase from a year earlier; while loans & advances to customers grew by 7% in the first half of the year to \$1.1bn. Also, customer deposits totaled \$4bn at end-June, constituting a growth of 5.5% from end-2011 and a rise of 6.9% from a year earlier and. The loans-to-deposits ratio increased to 28.6% at end-June 2012 from 26.3% a year earlier.

Bank of Beirut to repurchase preferred shares

Bank of Beirut sal announced that the bank's board of directors approved the repurchase and cancellation of all Preferred Shares Series D on December 28, 2012. In 2007, the bank issued 4 million redeemable, non-cumulative perpetual Series D Preferred Shares at an issue price of \$25 per share for a total value of \$100m. The Series D Preferred Shares earned dividends of 9%, or \$2.25 per share annually. As a result of the bank exercising its call option, Series D Preferred Shares will be de-listed from the Beirut Stock Exchange after its last day of trading on December 21, 2012. The bank still has 2.4 million Preferred Class E shares and 5.4 million preferred Class H shares outstanding. Bank of Beirut posted net profits of \$52m in the first half of 2012 and had total assets of \$8.9bn at end-June 2012.

Premiums generated by brokers rise by 5.4% to \$190m in 2011

The annual survey by *Al-Bayan* magazine of insurance brokers in Lebanon showed that total premiums generated by independent brokers reached \$190m in 2011, constituting an increase of 5.4% from \$180.3m in 2010. Independent brokers generated 15.3% of total insurance premiums written in 2011. Broker CAPE came in first place with \$22.1m in premiums generated, equivalent to 11.6% of the total. It was followed by AGCA with \$17.1m (9%), Gras Savoye with \$15.7m (8.3%); Nassif Assurances with \$14.7m (7.8%), and Credex with \$12m (6.3%) as the top five brokers in Lebanon. The survey covered 88 independent brokers in 2011.

In parallel, Ace Insurance Brokers registered the highest jump from the previous year with a 302.3% rise in premiums and ranked in 29th place in this year's survey. Seven of the top 10 brokers posted increases in their premiums, with MIB and Credex recording the biggest year-on-year rise at 45.3% and 33.3% respectively, while AGCA registered a 19% decline in premiums. Also, AGCA and ACAIR's premiums remained unchanged year-on-year. The top 10 insurance brokers controlled 57.6% of the market and their aggregate premiums reached \$109.4m last year compared to a 58.8% share and premiums of \$106m in 2010. Further, 36 brokers generated premiums of \$1m or more, 16 brokers had premiums ranging from \$0.5m to \$1m, and the remaining 36 brokers posted premiums of less than \$0.5m each.

AXA Middle East's shareholder equity up 29% to \$15m at end-2011

AXA Middle East released its audited balance sheet that shows total assets of \$92.8m at end-2011, up 41% from \$65.9m at end-2010. On the assets side, general company investments totaled \$34.1m and increased by 40% from end-2010. Receivables under insurance business reached \$7.6m, up by 818% from end-2010; while other assets totaled \$7.3m and increased by 22.9% from a year earlier. Other assets included non-investment properties of \$5.8m that rose by 19.2% and operating fixed assets of \$1.4m that increased by 40.6% year-on-year.

On the liabilities side, shareholders' equity totaled \$15m at end-2011, constituting an increase of 28.5% from \$11.7m a year earlier. Unit-linked technical reserves reached \$0.6m at end-2011 and rose by 4.6% from \$0.5m at end-2010. Also, technical reserves for the life segment increased by 7.5% year-on-year to \$8.9m, and those for the non-life category reached \$36m at end-2011 and increased by 24.6% from a year earlier. Non-life technical reserves included unearned premium reserves of \$26.2m that rose by 17.6%, outstanding claims reserves of \$7.5m that grew by 37.7%, and \$2.1m in reserves incurred but not reported that rose by 132% year-on-year. Further, provisions for risks and charges reached \$2.3m and rose by 8.4% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked AXA Middle East in 13th and third place in 2011 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$4.6m and non-life premiums amounted to \$71.6m, constituting increases of 11.8% and 32.5%, respectively. It had a 1.2% share of the life market and a 8.2% share of the local non-life market.

BLOM Bank and Bank Audi's income growth projections reduced

Deutsche Bank reduced its projections for Bank Audi's earnings growth by 9% in 2012 and by 6% in 2013, and its forecast for BLOM Bank's income expansion by 4% in 2012 and by 2% in 2013. As such, it projected Bank Audi's earnings to grow by 1% in 2012, 10% in 2013 and 11% in 2014 and those of BLOM Bank to increase by 6% per year on average during the 2012-14 period. It also lowered its projections for Bank Audi's deposit growth by 2% in 2012 and 4% in 2013, and for BLOM Bank's deposits by 1% in 2012 and 3% in 2013; while it increased the cost of risk estimates for both banks to reflect the slowing growth trends. It attributed the downward revisions to slow growth in the Lebanese market, significant uncertainties in Egypt, Jordan and Syria, and the Eurozone crisis.

Deutsche Bank indicated that both banks' direct exposure to Syria is currently limited to around 3% to 4% of their balance sheets due to the banks' effort to downsize their exposure to Syria and the depreciation of the Syrian pound. It said that the two banks allowed loans to mature, have not been competing for deposits in the Syrian market and reduced cross-border exposures. It considered that the banks' Syrian affiliates would not require additional capital injection despite the ongoing conflict. It estimated that both banks can absorb a full write-off of their equity invested in local Syrian operations without breaching the regulatory capital floor at the group level, as this would reduce capital ratios by 50 basis points at both banks.

In parallel, Deutsche Bank pointed out that the key risk of the Syrian conflict is its impact on the Lebanese economy and, therefore, on the outlook of the two banks. It attributed this link to the fact that both banks continue to rely heavily on the Lebanese market, as their domestic operations contribute to around 70% to 80% of each of the groups' assets and profits. It expressed concerns about clear signs that the unrest in Syria has exacerbated domestic political tensions and is having a real impact on the Lebanese economy. Further, Deutsche Bank said that regional instability has limited the contribution of the two banks' operations in the Middle East and North Africa to their overall earnings. It noted that Bank Audi's operations in the MENA region, which account for 19% of its assets, generated 16% of the bank's earnings; while those of BLOM Bank, which represent 17% of its assets, contributed to 10% of net income. It added that both banks' expansion in the MENA region has slowed in recent quarters due to unrest in Egypt, Jordan and Syria. Also, it considered that the ongoing Eurozone crisis continues to generate uncertainty. It estimated that European operations contribute to 7% and 8% of BLOM and Audi's assets, respectively, adding that the two banks also have exposure to the region through their significant investment portfolios and inter-bank assets. It noted that these assets have a relatively lower-risk level, but that they may be susceptible to unexpected event risk.

Ratio Highlights

(in % unless specified)	2009	2010	2011	Change*
Nominal GDP ⁽¹⁾ (\$bn)	34.7	37.1	39.1	
External Debt / GDP	61.3	55.4	53.5	(190)
Local Debt / GDP	86.0	86.3	83.7	(260)
Total Debt / GDP	147.2	141.8	137.2	(460)
Total External Debt / GDP	176.1	167.0	163.2	(380)
Trade Balance / GDP	(36.8)	(36.9)	(40.7)	(380)
Exports / Imports	21.5	23.7	21.2	(250)
Budget Revenues / GDP	24.3	22.7	22.7	(5)
Budget Expenditures / GDP	32.8	30.6	27.2	(342)
Budget Balance / GDP	(8.5)	(7.9)	(6.0)	191
Primary Balance / GDP	3.1	3.2	4.3	105
BdL FX Reserves / M2	74.0	77.1	78.8	172
M3 / GDP	236.5	248.4	248.7	30
Bank Assets / GDP	332.1	347.5	359.5	1,200
Bank Deposits / GDP	276.0	289.0	296.0	695
Private Sector Loans / GDP	81.8	94.2	100.7	650
Dollarization of Deposits	64.5	63.2	65.9	270
Dollarization of Loans	84.0	80.3	78.4	(190)

* Change in basis points 10/11

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, Byblos Research Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

Lebanon	Jan 2011	Dec 2011	Jan 2012	Change*	Risk Level
Political Risk Rating	56.5	54.5	55.5	▼	High
Financial Risk Rating	28.5	35.0	35.0	▲	Low
Economic Risk Rating	32.5	34.0	34.0	▲	Moderate
Composite Risk Rating	58.7	61.7	62.2	▲	Moderate

Regional Average	Jan 2011	Dec 2011	Jan 2012	Change*	Risk Level
Political Risk Rating	63.6	60.6	60.5	▼	Moderate
Financial Risk Rating	42.3	42.2	42.3	↔	Very Low
Economic Risk Rating	38.1	36.6	37.1	▼	Low
Composite Risk Rating	72.0	69.7	69.9	▼	Low

*year-on-year

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B1	NP	Stable	B2		Stable
Fitch Ratings	B	B	Stable	B		Stable
Standard & Poor's	B	B	Negative	B	B	Negative
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative
EIU		B	Stable

Source: Rating agencies



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